

The Impact of Mandatory Auto Insurance Upon Low Income Americans\*

by

Robert Lee Maril, Ph.D.

\*Testimony before the United States Senate Commerce Committee, September 9, 1998,  
Washington, D.C.

My comments about the impact of mandatory car insurance upon low income Americans are based upon a study I completed in 1992 in Maricopa County, Arizona (Maril, 1992). The study was funded by the National Association of Independent Insurers (NAII). The NAII asked me to conduct a study which would look at the economic and social consequences of requiring those in poverty, or close to it, to purchase auto insurance.

Although I have, as a sociologist, studied the varied problems associated with being poor, I am not an expert on car insurance. My scholarly work has focused upon issues of social inequality, the allocation of resources, and social justice (Maril, 1999, Maril, 1995, Maril, 1989). However, I had briefly studied difficulties which migrant farm workers in South Texas faced in 1991 when the state insurance board in Texas considered the consequences of a proposal by the insurance industry to raise their automotive rates. At that time I investigated the research literature and was surprised to find that there were few empirically based studies on this topic.

In 1990 and 1991 a series of new insurance laws was adopted in the state of Arizona. These new laws were much stricter than in previous years and provided for increased enforcement. Under Article 8 of the Mandatory Motor Vehicle Insurance Act, Arizona residents after January 1, 1992, could receive a stiff fine for driving without car insurance and other penalties upon conviction. An insurance identification card was required for each car before it could be registered by the owner with the Arizona Department of Motor Vehicles (ADMV). If the owner of a vehicle had his policy changed or did not make the payments, then this information was provided by the insurance company to ADMV which then took the appropriate action which could include stiff fines and loss of the offender's license.

### Methodology of Study

I selected Maricopa County, Arizona, as a research site for this study because it is a typical American county with a diversified urban and rural population composed of 84.7% Whites, 3.4% African-Americans, 1.7% Native Americans, 1.7% Asians, and 8.2% other racial

and ethnic minorities. Those who identify as Hispanic compose 16.2% of the total population. Maricopa County, in the south central part of the state, covers approximately 9,200 miles and includes the cities of Phoenix, Scottsdale, Mesa, Tempe, Glendale, and Sun City. The mean household income in 1989 was \$38,996. The poverty rate was 12.3%.

A telephone survey of 400 residents was conducted in the Fall of 1992 by the Survey Research Laboratory at Arizona State University. The margin of error is plus or minus 4%. Respondents were asked a variety of questions which centered on their car insurance status, their household income, the ways in which the car insurance influenced the purchases of household necessities and other items, their opinions and perceptions of mandatory car insurance, and other related information.

An additional 50 in-depth, face-to-face interviews were conducted of low income residents of Maricopa County. The purpose of these additional in-depth interviews was to provide data and insights to the survey. This study thus benefits from both a quantitative analysis of a representative sample of the low income population of this county as well as a qualitative analysis based upon in-depth interviews.

### Findings

1. Mandatory car insurance greatly impacts the annual household income of low income families. The lower the annual income among low income households, the greater the economic impact.

Nationwide, households spent 2.0% of their annual income on automobile insurance at the time of the study (Smith, 1991). Compared to this national average, low income residents of Maricopa County paid a dramatically larger percentage of their annual household income, up to 15 times or more than the national average, when they purchased mandatory car insurance. The average low income household paid \$1,102.00 per year for their mandatory car insurance.

The poorest households paid the greatest percentage of their annual incomes to mandatory car insurance. As Table One demonstrates, the poorest households paid almost one-third of their total annual income for mandatory car insurance. Those households which were below the poverty level but greater than 50% paid about 14% of their annual income. These individuals still paid a very substantial percentage of their income, seven times the national average. Households

in 200% of poverty paid 7% of their annual income to insure their cars; even at 7%, they paid three and one-half times the national average.

## 2. Low income households frequently were forced to put off purchases of basic necessities to pay for mandatory car insurance.

The data strongly suggest that low income households in Maricopa County were forced to put off purchases of basic household necessities and services to pay for mandatory car insurance. Putting off these purchases or services substantively affected their quality of life and general well-being based upon data collected.

The data in Table Two demonstrate this finding. A significant minority of the sample, 44.1%, responded that at least one time during the previous year they could not buy food at the convenience store or the grocery because money was allocated to car insurance. Low income Maricopa County residents also put off rent/mortgage payments (41.8%) and health needs and services (38.7%). Car repairs (56.7%) and other important bills (68.7%) were also put off because the auto insurance bill had to be paid first and foremost.

Reliable transportation to work is a key element in holding a job. Many low income residents of Maricopa County, like those in many other counties in the United States, must rely on private transportation to reach their jobs. Public transportation is problematic for these residents as is it for many Americans. Having a reliable car to get to one's job, or to look for work if unemployed, is extremely important to the economic and social stability of the household.

Low income respondents in the sample put off other vital necessities and services in order to pay for their mandatory car insurance because transportation was crucial to their well-being. This was a common theme among respondents.

For example, one individual who was interviewed said, "I work in construction so lately we've had problems. When there's a slump, (health) insurance is the first thing to go. (You) got to use money you have looking for work." This individual chose to pay the mandatory car insurance for his car in order to look for a job rather than make payments on health insurance for his family.

## Conclusions

Mandatory car insurance greatly impacts the economic and social well-being of low income families in Maricopa County. Undoubtedly this same impact is felt by other low income families throughout the United States. The data suggest that the poorer the family, the greater the economic and social consequences of mandatory car insurance.

Any federal legislation which lightens the economic load of low income families by lowering insurance premiums will greatly benefit families in poverty or close to it. Those families which will feel the greatest benefits are those which are the poorest. The legislation under the Auto Choice Reform Act should have a very positive impact on low income families.

**Table One**

---

Cost of Auto Insurance as Percentage of Annual Household Income of Three Low Income Groups		
Income Group	Per Year	Amount Paid Percent of Household Income
50% or less of poverty (\$0-\$6,679)	\$964.00	31.6%
Between 50% and 100% of Poverty (\$6,679-\$13,359)	\$1,116.00	13.8
Between 100% and 200% of Poverty (\$13,359-\$26,718)	\$1,135.00	7.0

---

*\*Type of insurance coverage not ascertained.*

**Table Two**

---

Purchases Put Off in Order to Pay for Car Insurance	
Item	Frequency
Food	44.1 %
Rent/Mortgage	41.8
Health Needs/ Services	38.7
Car repairs	56.9
Home repairs	25.1
Other Important Bills	68.7
Entertainment/Leisure	34.9

---



## Bibliography

Maril, Robert Lee, 1999. Waltzing with the Ghost of Tom Joad: Poverty, Myth, and Low Wage Labor in Oklahoma. Forthcoming.

Maril, Robert Lee, 1995. The Bay Shrimpers of Texas: Rural Workers in a Global Economy: College Station: Texas A&M University Press.

Maril, Robert Lee, 1992. "The Impact of Mandatory Auto Insurance Upon Low Income Residents of Maricopa County, Arizona". Unpublished report for the National Association of Independent Insurers.

Maril, Robert Lee, 1989. Poorest of Americans: The Mexican Americans of the Lower Rio Grande Valley of Texas: University of Notre Dame Press.

Smith, Brian W., 1991. "Household Expenditures in 1991". Schaumburg, Illinois: Alliance of American Insurers.

U.S. Census, 1990. Various Volumes. Washington, D.C.; Government Printing Office.